

JAPAN

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- A. The Japanese have done about as much as they can to
- stimulate economic growth in general
  - yen appreciation
- B. The Japanese must now emphasize long-term changes involving
- Opening their import markets
  - Shifting their economy toward domestic
- C. If you have doubts about this conclusion I'm prepared to discuss recent economic trends and the outlook for the rest of the year.
- D. If you're comfortable with the conclusion I'm prepared to
- Briefly review how the Japanese see things and how the Japanese government can make changes
  - Offer some general thoughts on how best to approach the Japanese

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- A. Two major actions have taken place.

1. Tokyo has stimulated economic growth, mainly by fiscal means.

-Increased real government spending 20% in the fiscal year just ended and targeted another 9% rise in the new year.  
-Its budget deficit is huge, equivalent to a US deficit of over \$100 billion.

(Deficit Chart)

- (Yen Appreciation) 2. The yen has appreciated by about 50% since 1976.

- B. The impact of these has been

- (Export Trend) 1. Export growth has fallen and probably stabilized by most measures.

-Not only because of yen appreciation  
-Also because government guided key industries, like autos, to limit exports.

- (Import Trends) 2. Imports have increased especially in the last half of 1978 because of

- The expanding economy and yen appreciation just discussed aided by
- One-time emergency imports there accounted for 10% of the 1978 increase.

C. Prospects are for

(Current Account  
Surplus)

1. Domestic growth of 6.9% in FY 79.
2. Japan's global current account surplus to fall to \$9 billion this year
  - given oil price increases already announced.
  - but higher oil prices such as Venezuela seeks could cut this nearly in half

D. But the stimulation Japan has used has inherent limits

(Real GNP Growth  
Chart)

1. Slowing down exports offset much of the effect of increased domestic activity
2. Further Japan must export enough, mostly manufactures to cover its large food, fuel & raw material imports

E. In sum there's little paydirt left in these measures. Further efforts must rely more on shifting growth away from exports and on structural changes to increase imports, especially of manufactured goods.

F. Shifting growth more toward meeting domestic consumer demand

1. Depends on a growing, but still ill-defined, consensus to devote more resources to improving housing, social services, etc.
2. Will involve major economic changes, so Finance Ministry & other conservatives will be cautious because
  - Fear losing control in a new situation
  - Desire for a trade cushion to cover possible oil and raw material price increases.

3. Thus will take time

- The consumer's voice is not a very effective pressure on the government to act.
- But foreign pressure in the same direction will surely help.

G. The second way to improve the trade balance is in expanding imports, especially of manufactured goods.

(Manufactures  
as % of Imports)

1. Such imports share of the Japanese market is dramatically less than that of other developed countries. Indeed the total of such imports is comparable to Sweden or Switzerland whose economies are only one-tenth Japan's.

2. In part, this is due to inadequate efforts of foreign, notably US, firms to enter and exploit the Japanese market.
3. But, Japanese policy, institutions and practices still do impose serious obstacles to expanding imports into Japanese markets.
  - a. Administrative barriers impede imports. Among them are:
    - Testing practices and standards related to design, safety, environmental and other requirements are slow and expensive for foreign products.
    - These make foreigners see sales to Japan as "too hard."
  - b. Potential foreign sellers face institutional barriers rooted in the structure of the Japanese economy. For example
    - 13 large conglomerates play a major role.
    - They rarely buy outside their own group.
    - They are major factors in wholesale distribution.
    - They control such key competitive factors as department store display space.
    - This makes market entry very hard.
  - c. Government policy creates other obstacles.
    - (1) The government believes in oligopolies and fosters them. For example, it pushed the merger of six computer firms into two by underwriting R&D costs in order to compete with IBM.
    - (2) Japan also vigorously protects some segments of its economy, notably agriculture.
    - (3) There are 113 public monopolies, e.g. telephone, railway, tobacco, that pursue "buy Japanese" policies. The telecommunications market alone accounts for \$2 billion in purchases each year; railways, \$700 million.
4. So clearly there are ways for Japan to open up to foreign imports. They include:
  - Bidding on public monopoly procurement
  - Liberalizing rules on direct investment
  - Simplify or eliminate many testing and similar practices
5. It can also promote consumer spending by reducing high consumer savings rate by:
  - a. Increasing social security benefits to reduce the need for retirement savings

(Social Security Chart)

- This could eventually free up \$5 billion per year if social security benefits reached the US level

b. Making mortgage money easier to get.

-For example lowering minimum down payment requirements from 40 to 20% could free up \$6 billion annually.

c. Encourage consumer credit

-Increasing credit to US levels could add .2% to growth  
-US firms could help develop this market if they were allowed to offer certificates of deposit in Japan.

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Japan's willingness to open its markets and in the longer run reshape its national economy from a pattern of export-led growth to one based on growth through expanding domestic demand depends in part on changes in the Japanese view of the world. The Japanese perception of their international position--and responsibilities--has, however, evolved much more slowly than their economic clout.

A. Despite their economic success, the Japanese still feel a marked sense of economic insecurity and vulnerability.

1. The lack of natural resources, dependence on external energy supplies and the importance of trade to the economy are all important factors in the Japanese world view.

(Food, fuel & raw materials as share of imports)

2. In particular Tokyo has tried to achieve current account surpluses to provide a foreign exchange cushion to buy food, fuel, and raw materials.

(Food, fuel & raw material imports as share of export earnings)

-Japan spends 70% of its foreign exchange earnings to buy these necessities.

-Because raw material prices are volatile, Japanese policymakers have always targeted an export surplus to provide a cushion against possible price increases.

B. The Japanese also continue to behave in ways that point to an "insular" outlook on the world.

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1. Notwithstanding their position in the front rank of the developed economies, the Japanese remain keenly aware that they are the only Asian member of the industrialized club.
  2. At the same time, Japan's basically homogeneous social make-up, combined with its historic isolation from the Asian mainland, have prompted the Japanese to feel distinct from and superior to their Asian neighbors.
  3. As such, the Japanese have tended to follow the US lead on issues affecting the industrial democracies and avoid unilateral initiatives toward the developing world where their sense of responsibility remains limited.
- C. Even so, Japanese policymakers and the public at large have gradually come to accept the need to take more responsibility in managing the world economy.
1. The Japanese now recognize that, unlike the 1950s and 1960s when Japan depended on the US to protect and foster the world free trading system, US actions alone can no longer underwrite the kind of international economy necessary to sustain Japanese interests.
  2. The Japanese likewise see that the terms of their economic relationship with the US have changed and that Tokyo must be responsive to US pressures if it hopes to ameliorate bilateral strains.
  3. Finally, the Japanese are aware that the size of their own economy and its impact on the world trading system have eliminated their ability to retain special dispensations in seeking to blunt policy initiatives aimed at opening Japan's markets and altering the historic Japanese pattern of export-led economic growth.
- IV. Until the early 1970s, Japan's economic policy was underpinned by a national consensus favoring export-led economic growth as the national foremost priority. That consensus has been clearest in the close relationship between the government and the business community.
- A. Although by no means free of frictions, collaboration between business and government was directly aided by a common set of goals governing industrial development and the expansion of Japanese markets abroad.
1. MITI's hand in identifying key areas for economic development, fostering business cooperation, and pruning less competitive industries has been an important element in Japan's success.
  2. Growth in Japan's foreign trade sector was also aided by a common business-government effort to identify new markets and pursue investment, tax and export promotion policies to rapidly develop Japan's market shares.

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3. Politically, popular satisfaction with rapidly accelerating economic growth, and the accompanying real increases in the public's standard of living, buttressed support for the government and its programs.
- B. The shock of the 1973 oil crisis ended Japan's domestic consensus on high growth as the nation's foremost priority, but several factors have complicated Japanese efforts to arrive at a new consensus on national economic strategy.
  1. Even before the energy crisis the government's ability to directly influence the industrial sector had been gradually eroded by the rise of new corporate giants--Honda, Sony, Matsushita, for example--
    - Unlike the old-line conglomerates, these are less beholden and less responsive to direct government guidance.
    - The result has been greater friction and competition within Japan's economic policy establishment.
  2. Within the government, decisionmaking has also become more complex because more ministries now have a hand in designing and implementing economic and trade policy. For example,
    - The system of flexible exchange rates means greater say for the Finance Ministry in day-to-day trade policy.
    - Pressures to liberalize the farm sector have boosted the role of the Agriculture Ministry.
  3. In the political arena, meanwhile, the declining rate of growth in real income has energized public pressure on government policy. Competing priorities and new demands on government resources have also become more intense because of popular pressures for actions to remedy long neglected areas like housing, welfare and public works.

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